1995 Agricultural Outlook Guide

A storm is brewing in the Eastern Corn Belt. And it has to do with size. We saw similar signs years ago in the poultry industry. Now the focus is hogs. But the bottom line is dollars. No matter where you stand on the issue, the continuing shift of farms to bigger, more specialized operations is going to touch you. If only in the new ideas it brings.

That's not bad. Really. The high-tech management once found only on the largest American farms is fast becoming the norm. A lot of it makes our work easier and more profitable. And more global.

Just look what happened last year.

Biotechnology made a big appearance in 1994 — whether we were ready or not. The new plants and animal products from that most modern use of science are making their presence felt.

More of the world's trade barriers came crashing down. More soon will. We found out more about NAFTA without hearing a "giant sucking sound." And there's finally a GATT document to try to agree on.

Despite the leftover impact of floods and drought from 1993, we had decent farm incomes in Illinois, Indiana and Ohio. Nationally, our crop stocks rebuilt quickly — bins throughout the Midwest are full this fall. And then there's that mountain of meat.

What's to look forward to in 1995? More change.

There's the little matter of a major power shift in Congress. What's it mean in the year leading up to a farm bill? Will there really be a "farm" bill or will the trend toward more consumer and environmental emphasis continue? There's talk that agriculture, as we traditionally define it, has lost some political clout. But there's additional proof that when ALL of agriculture gets together — from farm gate to dinner plate and beyond — the message has some kick.

Teaming up has farmers and consumers kicking together more and more often. Consequently, the food industry is flying high with new ideas to meet those changing demands. We're looking at fuels, plastics, foods that heal — surely you've heard. This is not our parents' agriculture.

In last year's report, we asked "What's an aggie to do? Tune into 'food' instead of farm? 'Green' instead of grain?".

Darn tootin'. You have, and you are. But we can't ignore what's going on down on the farm.

Read the 1995 Agricultural Outlook Guide. You'll find lots of information on the economy and its impact on food production. We've given you the supply information for commodities. But more importantly, we've focused on demand.

We've thrown in some details on the little things — like labor management — that can make or break your operation. Just to keep you thinking. And just when you thought it was all finished, there's another look at food products. Maybe there's a trend in there you can tie your production to.

Once again, we've polled some of the sharpest economic and public-policy minds in the Midwest for this report. Use the Guide to help plan your year or to make your own projections. Keep in mind that most of our data were analyzed in early November amidst the uncertainty of harvest and Election Day. Get the highlights. Then think about the questions we didn't have room to answer.

The 1995 Agricultural Outlook Guide is a unique reference for Ohio, Indiana and Illinois. It was prepared by Ohio State University's Section of Communications and Technology in cooperation with the extension services and agricultural economics departments at Purdue University, the University of Illinois and Ohio State. Special thanks to the Farm Progress Company's magazines in the four states.

Remember, the 1995 Agricultural Outlook Guide isn't the last word on the food and farm economy. You can get more information on each topic in this report by contacting the Extension office in your county or by calling:

- Allan Lines, Ohio State (614) 292-5926
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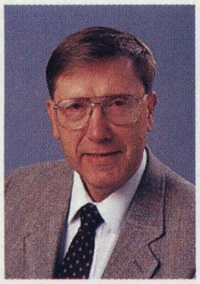
The University of Illinois at Urbana-Champaign

Purdue University

The Ohio State University

The Macro Economy



> The national and international economies are poised for two more years of growth. That economic health will add to farm product demand and create more off-farm income for farmers ....
> *Luther Tweeten, Ohio State University*

Expanding national and world economies are helping the agricultural economy. The question is how long that expansion can continue. Ohio State's Luther Tweeten says continued expansion requires a delicate balance between an overheated economy and inflation on one hand, and a slack economy and unemployment on the other hand.

So far, the indicators show balance.

Inflation.

Inflation, as measured by consumer prices, rose only 3 percent the past 12 months. Evidence of accelerating inflation surfaces from time to time, creating uncertainties in the stock and bond markets. Expect the inflation rate to average 2.7 percent in 1995.

The economy should grow 2.7 percent in 1995 following 3.7 percent growth this year. That's about as fast as the full-employment economy can grow without inflation.

The national unemployment rate holds near 6 percent. Economists call this "full- employment" because lower rates would signal shortages of some types of labor and pressures for inflationary wage and price hikes.

Around the world: The sluggish Japanese and German economies have turned the corner and joined a prospering world economy expected to grow at 3.6 percent in 1995 after 3.1 percent growth in 1994. Even the former Soviet Union and Eastern Europe show signs of life after floundering since 1990.

National and international economies are poised for two more years of growth. That economic health will add to farm-product demand and create more off-farm income for farmers.

Keep an eye on inventories, inflation, and debt for signs of a faltering economy.

A buildup of inventories has often slowed the economy in the past. It may not be a big problem in 1995 because computers and just-in-time inventory management borrowed from the Japanese help to avoid excessive buildup of supplies.

Inflation could revive, but Federal Reserve Board chairman Alan Greenspan has said he won't tolerate inflation. That attitude itself will restrain inflation. Anti-inflation measures will raise three-month T-bill rates to about 6 percent but should hold 30-year government bond rates near 8 percent.

Debt.

The biggest problem with the economy is mounting private and public debt. That's not just a U.S. problem — expansion will be constrained by high debt. It is notable that the United States and industrial countries as a whole have public debt averaging 70 percent of national incomes. And the percentage is rising. Sooner or later countries will need to cut public spending. That could mean cuts in farm programs at a time when demand for farm products is already slack.

But don't expect the debt burden to stop economic growth for another two years. Expected continued expansion, coupled with a low dollar and fewer trade barriers, will continue American farm export gains.

Finance

A significant rise in interest rates was the biggest development on the finance scene in 1994. Ohio State farm-finance specialist Warren Lee notes that the Fed increased the discount rate on five separate occasions in an effort to nip inflation in the bud. The yield on six-month Treasury bills increased from 3.3 percent in 4th Quarter 1993 to 5.3 percent in mid-October 1994. Long-term bond yields increased less, to 7.5 percent in mid October from 6 percent at the beginning of 1994. With the 200 basis-point increase on the short end and the 150 basis-point increase on the long end, the yield curve became a little flatter.

Most lenders don't immediately pass fund-cost increases on to borrowers. The prime rate jumped 175 basis points to 7.75 percent in the first three quarters of 1994. But lenders have reduced their interest spreads, so rates on farm loans (80 percent are variable rate) appear to have risen by about 150 points since the beginning of the year.

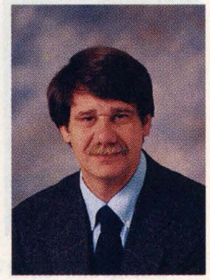
Farmers' financial positions continue to strengthen. Farm asset values are growing 4 to 5 percent annually, well above current 3-percent inflation. This means farm assets and owner equity are increasing in real terms for the second consecutive year.

Stronger balance sheets and a decent outlook for farm income should reduce serious financial problems. Delinquent farm loans, as a percentage of total loans, have declined to less than 2 percent at commercial banks and around 3 percent for the Farm Credit System and life insurance companies. That's 25 to 30 percent of delinquency rates in the mid-1980s.

Look for continuing restructuring among farm lenders. Recent legislation allowing nearly unlimited nationwide branching will accelerate the trend to fewer and larger commercial banks. Several mergers of Farm Credit System banks are also pending.

International Trade

Renewed economic growth by U.S. trade partners means they'll buy more. But the neighbors to the north aren't happy. And look for continued conflict between politics and U.S. trade goals ....
Philip Paarlberg, Purdue University



U.S. agricultural export value is forecast to be 45.5 billion dollars in 1994–95, compared to 42.5 billion in the 1993–94 fiscal year. Phil Paarlberg of Purdue says this rise is due to renewed economic growth by major trading partners, reduced foreign output, lower U.S. crop prices, and the weakness in the value of the U.S. dollar.

Agricultural imports by the United States are forecast at 24.5 billion dollars for next year, unchanged from last year. Next year's U.S. forecast reflects 3-percent economic growth and a weaker U.S. dollar.

Several possible developments in international markets will affect U.S. trade performance beyond 1995: whether the GATT agreement is ratified; foreign exchange-markets behavior; and world economic growth. Potential trade disputes lurk in some American attempts to link foreign political and social reform to trade opportunities in the United States.

Trade outlook.

Keep an eye on several world-market developments next year. Europe should renew real GDP growth in 1994–95. Chinese crops were hurt by floods and drought, and food prices are being regulated as part of China's anti-inflation program. And developing countries will stay the major growth markets for U.S. agricultural goods — several major Pacific Rim markets should again have rapid economic growth. Foreign production is forecast strong, but below last year. This means some improvement in sales opportunities as world demand rises.

The dollar is down against major currencies — historically low levels against the yen. This should continue given macroeconomic developments in Europe, Asia and the United States. A depreciating dollar boosts export prospects to the extent that it is passed through to importers. Lower U.S. commodity prices should also increase demand.It's unclear why the dollar is falling. It should be strengthening on recent moves by the Federal Reserve to raise U.S. interest rates while foreign rates are reduced, as well as slower growth in the U.S. money supply. On the other hand, the U.S. economy is possibly slowing while the European and Japanese economies are coming out of recession. Further contributing to the weaker dollar are concerns about rising inflationary pressures as the U.S. economy expands in concert with the uncertainty over whether anticipated Federal spending reductions will be realized. Many currency traders believe that the Clinton Administration intends to force the dollar lower to cut the Japanese trade surplus.

U.S. imports of agricultural products should be the same as the past year — $24.5 billion. This stability reflects a forecast of relatively slow economic growth. The depreciating dollar means higher U.S. prices for foreign goods and reduced imports.

Trade problems with Canada.

Canadian wheat exports to the United States have risen sharply since free trade kicked in. U.S. wheat growers believe these wheat imports are supported by Canadian transportation subsidies and through the pricing behavior of the Canadian Wheat Board. The Canadians say the flow of wheat into the United States is a result of U.S. programs like the Export Enhancement Program that subsidize U.S. wheat exports and raise U.S. wheat prices. Canadian wheat flows into the United States to replace subsidized U.S. exports. The two countries continue to look at their agreements. And now the Mexican market is part of the discussion. The disputes illustrate the problems of forming a free-trade area without including domestic policy in the negotiations. Agricultural trade policies are outgrowths of domestic programs, and liberalization of trade policies without compatible changes in domestic programs leads to trade problems within a free trade area.

High-value trading.

High-valued agricultural products are becoming an increasingly important part of U.S. exports. They include highly-processed goods like beverages, candy, and consumer-ready foods. Other goods are semi processed: soybean meal and wheat flour. Finally, there are unprocessed HVPs like nuts. While the share of HVPs in U.S. agricultural exports is much higher than 20 years ago, the HVP share for the United States remains lower than that for the world as a whole.

Trade and politics.

Continuing tension between trade policy and political goals will affect export industries like agriculture. Cases in point include the controversy over renewed Most Favored Nation status for China. The conflict: improved human rights vs the potential of the Chinese market. Likewise, labor groups want to cut trade to countries without guaranteed labor rights. And environmental policies are constantly held hostage in trade talks.

In fact, the linkage between trade policy and environmental policy will likely be one of the major policy conflicts in the next several years. We saw it in NAFTA and GATT negotiations. Differing national environmental rules make this a tricky issue. And different legal systems don't make it any easier. The trick will be balancing economic and environmental concerns in the policy debate. And getting proponents to recognize opponents' concerns.

Food and Agricultural Policy

This policy report was drafted before the Republicans stormed the Congress in November. The issues won't change much. But how Congress and the rest of government looks at the issues just might.... *Harold Guither, University of Illinois*

Congress and the President face some crucial agricultural and food policy issues during 1995. And that may be an understatement, says Illinois policy expert Harold Guither.

USDA reorganization.

Reorganization continues, as does the uncertainty. Secretary Espy may get some decisions made before he leaves office at the end of December, but many decisions will remain. Which field offices will remain open? How will the new Farm Service Agency merge Agricultural Stabilization and Conservation Service, Farmers Home Administration, and Federal Crop Insurance Corporation offices into one location? How will the Independent National Appeals Division be set up to handle administrative appeals of agency decisions? And all that says little about the massive job of working out all the problems from shifts in turf and administrative responsibilities within USDA.

The Midwestern states, with significant agricultural operations in most counties, will probably face fewer changes of federal government agency offices. States in the East and Northeast are more likely to see consolidation of agricultural agency offices. Rest assured that most closings won't occur without political baggage—even when the public generally favors improved efficiency and government downsizing.

What to expect in new legislation.

The 1995 "farm" bill (it's not just for farmers anymore) will provide the major work load for House and Senate agricultural committees. The major issues: farm price and income supports, commodity programs, conservation practices and programs, environmental concerns, trade, food assistance, and payment limitations. And that's a mind full.

The political environment for 1995 agricultural and food legislation is likely to stifle any increase in farm-program spending. Budget constraints require that any new programs are offset by reductions in current programs. And there will already be plenty of pressure to reduce funding for commodity programs while maintaining expenditures for conservation, consumer and environmental programs.

Revenue assurance—a new safety net idea for farm income without individual acreage bases, program yields, and set asides — offers a different approach to farm-income support and is attracting considerable interest. However, many farmers doubt this idea, probably because they do not fully understand it. Revenue assurance will get considerable attention, but it's unlikely to be enacted in this round of legislation.

Conservation compliance first appeared in the 1985 Act. It will be continued. The Jan. 1, 1995 deadline for farm conservation plans will be enforced. Too much attention is on USDA to allow as much slack on these plans as was predicted.

The Conservation Reserve Program has been widely accepted but the $1.8 billion annual price tag for rental payments looks high to some policy makers. All contracts set to expire in 1995 were extended another year to allow Congress time to set the CRP's future. Recent preference polls show a majority of farmers supporting the CRP. Most favor extending contracts on the most erodible land.

Trade policy.

Congress delayed the GATT vote until early December. A ratified agreement could give dairy farmers more competition from imports. But opportunities for additional exports could help expand the markets for most Midwestern agricultural commodities.

Payment limitations.

Limiting government payments to larger farm operations is not a new idea. The 1990 Act limits the total payments a person may receive under one or more of the annual commodity programs to (1) $50,000 for deficiency and diversion payments, (2) $75,000 for gains from repaying a marketing loan, loan deficiency payments, and any wheat or feed grain emergency compensation payments resulting from a reduction of the basic loan level, and (3) a total of $250,000 for the above two limits and any payment for resource adjustment or public access for recreation and any inventory reduction payments. Total disaster payments are limited to $100,000.

As complicated as all that sounds, pressure to restrict payments further will continue on the assumption that large farm operations have sufficient income without supports. Efforts to cut off payments to farmers above $100,000 gross sales or with substantial off-farm income failed in 1990. Farm groups teamed up with those who want conservation compliance, sodbuster and swampbuster programs continued to prevent this type of "means test." A "means test" would make farm programs look like welfare payments—a situation farmers want to avoid. Also, limiting payments would discourage or greatly reduce farmers' participation in conservation compliance and other conservation programs now required for farm program eligibility.

The "other" farm laws.

Food Assistance programs now are more than half of the USDA budget. They will be part of the 1995 agricultural and food legislation. These programs are supported by urban members of Congress and make continuation of farm price, income support and conservation programs acceptable. Without the food programs, it is doubtful if farm programs would be possible. At the same time, the agricultural side of USDA has a continuing need to point out those "other" programs to a general public and Congress who question the cost of an agency aimed (in name anyway) at less than 2 percent of the nation's population. How that story is told after restructuring is critical.

Soybeans

> Look at 1986 for a hint on the soybean market. Record supplies and world production are pushing down. But demand is strong, and we'll see beans stay in the $5 range. Unless the weather changes
> .... *Allan Lines, Ohio State University*

Shattered records.

A record yield of 41.5 bushels per acre and increased acreage brought a record 2.52-billion bushel U.S. crop this year. The previous yield record of 37.6 bushels was only two years ago. 1979's previous crop record of 2.26 billion bushels required nearly 10 million more acres to produce. This year's crop is more than one-third larger than last year. Add the larger-than-expected carryin of 209 million bushels and we have record supplies of 2.74 billion bushels.

Illinois, Indiana and Ohio account for one-third of the U.S. production. The large, 432-million bushel Illinois crop is up 12 percent from last year on higher yields and increased acreage. Indiana's crop was a bit smaller than last year at 215 million bushels largely because of 170,000 fewer acres. Ohio's record crop of 169 million bushels resulted from higher yield, and fewer acres than last year.

Ohio State's Allan Lines says increased U.S. production will mean record world production and supplies for soybeans. World soybean production should be 14 percent higher than the last two years. World supplies are up 9 percent to 149.9 million metric tons. Foreign production is down 1.9 million metric tons from last year, largely on a smaller Brazilian crop.

Demand: Records; not in exports.

World use continues to grow — up 3 percent to 123.7 million metric tons this year and 7 percent from two years ago. The U.S. grabs about one-third of world use. Expected foreign usage is 83.7 million metric tons this year, up 1 percent. The United States needs an estimated 40.1 million tons of soybeans, up 8 percent from last year.

Strong domestic crush will use much of the increased U.S. supply of soybeans. High U.S. livestock numbers mean record consumption of bean meal — exceeding 26 million tons. Fewer livestock and less purchasing power in the Former Soviet Union, and increased meal production in foreign countries should keep U.S. meal exports on the slow track at 5.9 million tons. That's up 10 percent for the year but still 25 percent below the 7.9 million tons exported in 1979. Ending stocks of bean meal will likely increase to 300 thousand tons, up 40 percent from last year. This should keep meal prices around $160 per ton — good for livestock producers but bad for bean growers. Cheap meal means cheap beans.

The excess meal comes from the strong crush demand for oil. Growing domestic and global demand continue to set prices in the bean complex. Domestic soyoil demand will establish a record this year at 13.2 billion pounds. World and foreign use will be up about 1 percent. Oil prices this year should average about 25 cents per pound, lower than last year's 27 cents. Ending stocks, up 22 percent, cause the decline.

Overall, lower bean prices will stimulate exports. Bean exports should rally to 770 million bushels this year, up 30 percent, equal to two years ago but still 22 percent less than the record of the early 1980s.

Stocks up sharply.

Ending domestic stocks of beans on Sept. 1, 1995 should be more than double what they were Sept. 1, 1994. Significantly lower carryin this year will be more than offset by increased production. Increased usage will not prevent stocks from increasing. Domestic production will exceed use by about 280 million bushels. The stocks/use ratio next September should exceed 22 percent, more than double last year's. World ending stocks should go from 17.3 to 25.3 million tons, up 37 percent. And the world stocks/use ratio next September will increase to 20 percent from 15 percent in 1994.

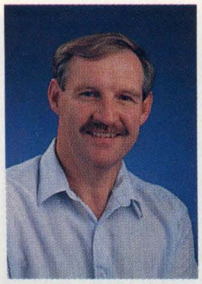
Prices.

Ending stocks were last above 400 million bushels in 1986 when the average price was near $5. The USDA says to expect the same this year, with a range of $4.80 to $5.50. Current oil and meal prices suggest averages a little higher. Look for prices around $5.25 in the Eastern Corn Belt for 1995, with a high of $5.75 next spring. Unless there are weather problems here or in South America.

U.S. Soybeans supply and demand.

	1992–93	1993–94	1994–95
	(million bushels)		
Supply			
Beginning Stocks	278	292	209
Production/Imports	2,190	1,875	2,528
Total	2,468	2,167	2,737
Usage			
Crush	1,279	1,272	1,355
Exports	770	589	770
Seed/Residual	127	97	117
Total	2,176	1,958	2,242
Ending Stocks	292	209	495
Stocks/Use Ratio (%)	13.4	10.7	22.1
Avg. Price ($/bu.)	$5.56	$6.40	$4.80-5.50

Corn



Stocks have recovered thanks to record yields. But that puts prices in the doldrums. Call $2.40 the high for the Eastern Corn Belt. Market based on basis .... *Darrel Good, University of Illinois*

Record yields, a record crop, prospects for record consumption, and recovered stocks is the outlook for corn. November USDA harvest estimates put the 1994 crop at 10.01 billion bushels, reflecting a record yield of 138.4 bushels per acre. That's 530 million bushels above 1992's previous record. The January report will likely show an additional increase in production. With the excellent yield reports throughout the Corn Belt, Darrel Good of the University of Illinois calls the production estimate at 10.1 to 10.2 billion bushels.

Domestic feed consumption of corn should be supported by near record livestock production, low feed prices, and reduced consumption of other grains. Start watching quarterly grain stocks in January for an indication of feed consumption. USDA expects it to be 5.5 billion bushels for 1995, 200 million above the 2-year old record. And actual use could be 50 million bushels more if hog numbers keep expanding. Expect corn use for seed, food and industrial purposes to keep expanding at 4.5 percent annually. That puts total use at 1.69 billion bushels this year. It could be more if ethanol is part of the oxygenated fuels program.

Exports.

The 1993-94 marketing year ended with a flurry of corn exports. The total was a relatively small 1.325 billion bushels, but about 50 million larger than projected in August. USDA expects a 300 million bushel increase in U.S. corn exports this marketing year — reflecting a smaller South African crop and the likelihood that China will increase domestic consumption and reduce exports.

Exports and export sales were relatively slow during the first part of the 1994-95 marketing year. As of Nov. 3 only 268 million bushels had been shipped, 10 percent less than on the same date last year. Sales of corn not yet shipped as of Oct. 27 totaled 329 million bushels, compared to 291 million on the same day last year. Exports must average nearly 32 million bushels per week from early November through August 1995 to reach the USDA projection for the year.

Inventory.

Year-end corn inventory dropped to an 18-year low in 1994. Those stocks will likely be much larger by the end of the 1994–95 marketing year. USDA projects those stocks at 2.055 billion bushels. If production increases significantly, year-ending stocks could be near 2.2 billion bushels. Anticipate a much smaller corn crop in 1995.

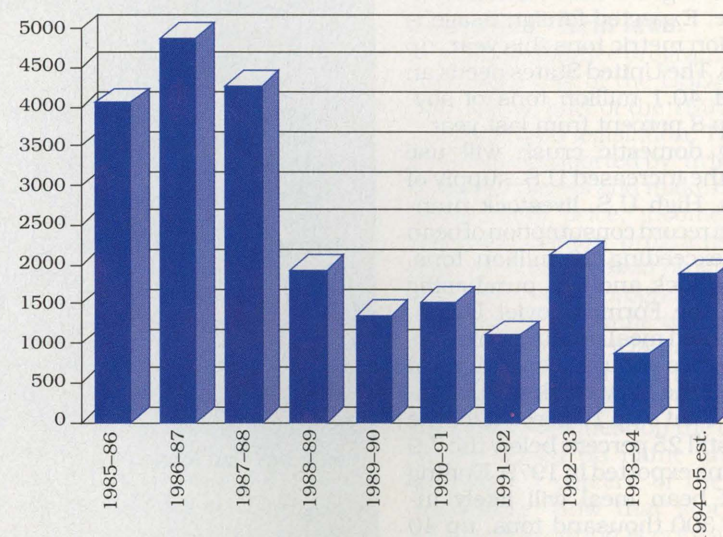
The Secretary of Agriculture announced a 7.5 percent Acreage Reduction Program for the 1995 corn crop with changes possible up to Nov. 15, 1994 — about the time this went to press. At 7.5 percent ARP, planted acreage might decline to about 75.5 million in 1995. That would put harvested acres near 68.8 million next year. An average yield would produce a crop of about 8.8 billion bushels.

Prices.

Corn prices during the 1994–95 marketing year should behave in a typical large-crop pattern. That would mean cash prices lowest at harvest and highest in the spring or summer of 1995. In the Eastern Corn Belt, cash prices may trade in a range of $1.80 to $2.40 per bushel. Call the season's average in the $2.15 to $2.20 range.

As always, prices during the last half of the marketing year are the most uncertain as prospects for the 1995 crop show their influence. Ownership of the crop into the spring/summer of 1995 is probably the best strategy, with the magnitude of the basis and spreads in the futures market dictating the lowest-cost form of ownership. As long as basis is weak and spreads are wide, storage is most attractive. Consider cash sales if basis gets strong this winter as producers hold their crop. Decisions about rebuying can be made before March.

Corn carryover stocks, 1985–95.



Wheat

Wheat prices rallied sharply from a harvest low to an early-October high. December futures at Chicago bottomed at about $3.25 in July and traded as high as $4.19 in early October. The price rally was associated with production problems outside of the United States.

The 1994 U.S. wheat crop was an estimated 2.32 billion bushels, about 80 million smaller than the 1993 crop and 140 million less than 1992's crop. The estimated size of the crop was reduced in October due to a surprisingly small September stocks estimate. The smaller 1994 crop resulted from a 100-million bushel drop in hard-winter and a 40 million bushel decline in white wheat production. The soft-red winter and spring wheat crops were each up about 30 million bushels.

Darrel Good of the University of Illinois expects foreign wheat production to be 12 percent smaller — 468.8 million tons — than the 1993 crop and the smallest crop in six years. Australia has the largest reduction, down 47 percent due to an extremely dry growing season. Production should be down 17 percent in the former Soviet Union, off 13 percent in Canada, and down 3 percent in China. Expect production to be up in Argentina (12 percent), the European Union (3 percent), Eastern Europe (9 percent), and North Africa (32 percent).

Market behavior projects the small world crop to bring large U.S. wheat exports during the 1994-95 marketing year. USDA, however, puts U.S. exports at 1.25 billion bushels, only 1.8 percent larger than last year. After 22 weeks of the marketing year, wheat shipments were running about 6 percent behind a year ago. But outstanding sales were about 50 million bushels larger at the same time. Export volume will hinge largely on the USDA's Export Enhancement Program — specifically, how much of a subsidy USDA will pay. The official USDA export projection suggests that there will be less subsidies than in recent years.

Stocks.

Stocks of U.S. wheat at the end of the current marketing year are projected at a 3-year low of 513 million bushels. World stocks are projected at 114.5 million tons, their lowest since the 1960s. Wheat production should rebound sharply in 1995. Higher prices will encourage more acreage in Canada and the United States and normal weather will bring higher yields to other areas.

> Look to sell what wheat you have. The market's the best it's been for a while. High plantings will cut some of those price bonuses in 1995....
> *Darrel Good, University of Illinois*

U.S. wheat seedings will likely rebound by about 2 million acres, following the past crop's decline. More than half of that increase is expected in soft red winter wheat in the Midwest. Seedings in Illinois and Missouri declined 950,000 acres this past year due to adverse weather at planting time. The combination of high prices and near-ideal weather should stimulate a large increase this fall. The rebound in wheat production is at least partially anticipated by the market, as July 1995 futures prices are about 50 cents below March 1995.

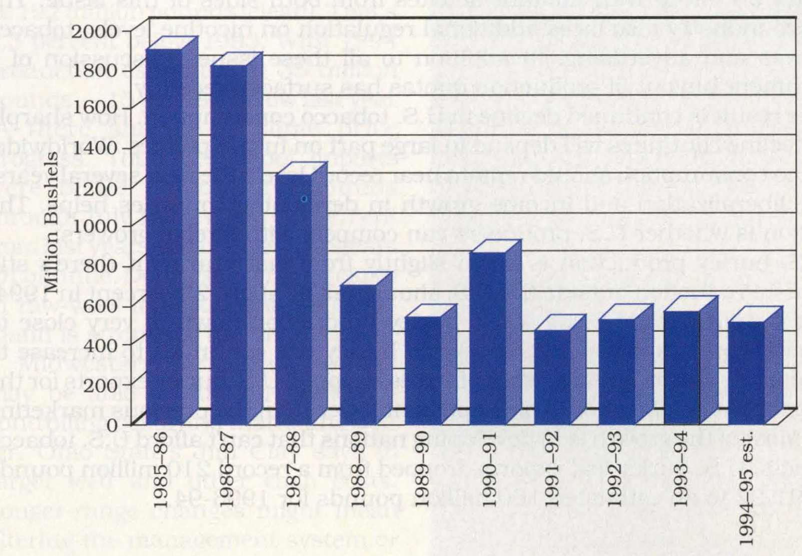
Prices.

For the past three crops (1991, 1992 and 1993) prices bottomed at harvest and peaked in January or February. It appears that prices peaked in early October this year. The subsequent decline, however, could be erratic and could be interrupted if winter weather threatens the crop.

The USDA projects the season's average price to range from $3.25 to $3.65. With prices well above the upper end of the range, it seems prudent to move remaining supplies of old crop wheat.

Pricing the 1995 crop is a little trickier. July futures at Chicago were trading near $3.50 at this writing, after establishing a contract high near $3.64. For the past four years, harvest lows for July futures have been in the range of $2.50 to $3.05. Forward pricing a portion of the expected 1995 crop yet this winter will lock in prices well above those levels. As a rule, prices have dropped from March on in each of the past three years, so look for opportunities to make additional sales between December and March.

Ending U.S. wheat stocks, 1985–95.



Land Values and Rents

Land values climbed more in the past 12 months than any year since recovery began modestly in 1987. Illinois' John Scott says prices have risen each year since but generally did not exceed inflation. However, during 1993 and 1994 the rise got stronger as cash rents were bid up. USDA surveys show a general rise of about 7 percent in the land market, while the Federal Reserve Bank of Chicago reports increases of about 9 percent. There are some hot areas where actual sale prices indicate a 20-percent increase over last year.

Investors have discovered the current return on land is as good as most other investments—higher than more conservative investments such as CD's and treasury bills. Land returns also beat stock market returns. Absentee investors are significant factors, but land prices are reaching levels where other investments compete. This is likely to show up more over the next year or two as interest rates increase.

Current low commodity prices are bound to dampen the land market. So don't expect the price rise to exceed inflation the next year or two. And there won't likely be as much land on the market anyway. When farm incomes are as good as they have been recently, retirements and other exits from farming are put off.

Bidding by farmers has increased rents over the last several years, helping drive prices up. This has been the result of increasing farm size, and lower labor, fuel, and machinery costs with adoption of minimum or no till farming. No-till frees up labor, encouraging farm expansion. Traditional crop-share leases are also being adjusted to provide a higher income to land owners. Although yields are quite high in many areas of the Corn Belt this fall, lower commodity prices should have a moderating effect on rents — don't expect much increase next year.

Tobacco

The U.S. tobacco industry continues to be under attack socially, politically and economically. As a result, the short-term outlook for tobacco is depressed. Will Snell, agricultural economist at the University of Kentucky, says the long-term outlook is even more uncertain. The industry currently faces escalating loan stocks, burdensome marketing assessments and the near-term potential for significant quota reductions, increased taxation and additional government regulation. However, current negotiations with tobacco companies may bring a buyout of loan stocks. And other policy options are being considered to stabilize tobacco industries.

Higher taxes are being proposed as part of a number of health-care proposals. Many of the tax proposals are so-called "sin" taxes. And there's the escalating number of smoking restrictions and bans. Indeed, parts of the country are faced with militant debates from both sides of this issue. The tobacco industry also faces additional regulation on nicotine levels, tobacco additives and advertising. In addition to all these issues, discussion of a government buyout of production quotas has surfaced recently.

The result is continued decline in U.S. tobacco consumption. How sharply that decline continues will depend in large part on future politics. Worldwide, tobacco consumption should remain near record levels the next several years. Trade liberalization and income growth in developing countries helps. The question is whether U.S. producers can compete with foreign growers.

U.S. burley production is down slightly from last year. But there's still surplus. Production outside the U.S. should fall by about 23 percent in 1994. Lower output should bring world burley production down to very close to projected consumption for 1994. World burley use continues to increase to record levels annually. As a result of excess supply, U.S. burley exports for the year ending Sept. 30 should be 13 percent lower than the previous marketing year. Most of the growth is in developing nations that can't afford U.S. tobacco products. U.S. burley leaf exports dropped from a record 210 million pounds in 1991-92 to an estimated 160 million pounds for 1993-94.

Farm Income

Farm income has been usually good over the last four or five years. And cash flow was also quite good at least to the middle of 1994. High yields, a large crop and lower prices mean total crop revenue is going to be lower, says John Scott of the University of Illinois. That's despite some good returns on wheat.

On the livestock side, all prices but milk are going to be lower — many producers have dropped into the loss range. Some pork and beef is sale priced below poultry. Profitability in fed beef depends more on what feeders will pay for cattle as they go into the feed lot this fall. As hog prices stay below $35, there are going to be significant losses in the hog business — more for larger producers with relatively new facilities. Mega producers who have jumped into business the last five years have the largest fixed costs but may be more efficient.

Overall, net farm income should be up about $2 billion in 1995. Ohio State economists expect cash costs to hold steady and gains in crop receipts. Call 1995 total crop income $96 billion, up $6 billion from 1994.

It's a different story in livestock — net income down from $91 billion in 1994 to around $87 billion net income in 1995.

Editor's notes:

A few issues critical to agriculture in 1995 didn't get much attention in this Guide. So here's some food for thought:

Health Care — Lots of plans and rhetoric are out there. A question of fairness and cost. Farmers and other small businesses are stressed by health costs. Can Congress and the President get together? What's reasonable coverage? What about rural service? Cost?

Litigation Costs — America is sue happy. Your business pays. There's some indication government will take on some angles. States are already cutting litigation — on crime; other issues. Lots of potential impact here.

Personal roperty Rights — Public agenda vs private ownership. Lots of controversy. How much is special interest hype — on both sides? A Republican Congress should jump on this. Property rights were an election issue.

Consumer Trust — Don't pass food scares off as the wailings of "extremists" or others with a hidden agenda. The integrity of products is critical — their quality must be above suspicion. Continue education of consumers about products and their producers. It's not P.R. It's smart marketing.

Global Society — GATT's up for ratification. Bigger than that is being a global society. How much will the U.S. help ailing areas? That help includes free food. A lot of the call for American expertise relates to agriculture.

Environment — Mix this with property rights. You've thought about the farm bill. But much will environmental policy and activity touch you daily?

Sheep, Lamb and Wool

U.S. sheep and lamb slaughter dropped about 5 percent through September 1994 to 3.7 million head. Sharply lower lamb slaughter during June and July produced higher prices at both the live and wholesale level. Lamb slaughter alone was about 233 million pounds for that period. Lower ewe-lamb retention and a higher lambing rate will contribute to increasing supplies of market lambs into the winter of 1995. Lower slaughter numbers and lighter slaughter weights during the summer quarter should push 1994 production to around 324 million pounds, down 2 percent from last year. Further declines are forecast for 1995 as inventory liquidation continues.

The Jan. 1, 1995 inventory is forecast at 5.6 million head. Expect the 1995 lamb crop to be down about 4 percent from this year, likely causing a 7-percent drop in production. Lamb imports through May dropped below a year earlier to around 15.7 million pounds. Higher shipments from Australia were offset by declining imports from New Zealand. Smaller mutton imports during the period pulled total lamb and mutton imports down 8 percent from a year earlier. For the year, total lamb and mutton imports should remain below 1993 in partfrom unfavorable exchange rates.

To date, 1994 lamb prices have not followed historical seasonal patterns. Timing of marketing will be extremely important in obtaining the more favorable prices. Therefore, shepherds need to observe the market closely and develop appropriate strategies. Again, production costs are important components in determining marketing strategies.

Total 1994 U.S. wool supply should be 192 million pounds (clean). That's 2.3 percent below 1993. With 1994 production estimated at 35 million pounds — 15 percent below last year — there should be some price progress. Total U.S. wool imports were 53.09 million raw pounds through July 1994, down 6.5 percent from last year. And the trend appears to continue. Don't expect much climb in raw-wool imports. But world demand is strong for the finer grades.

Midwestern farm-flock owners may be able to sustain profits by controlling costs and marketing better. Ohio State's Jim Clay says to target feed and other cash costs. Longer-range changes might mean altering the management system or production calendar.

GATT Text Agreement

After 7.5 years, a final text of a new General Agreement on Tariffs and Trade was agreed upon.

Purdue's Phil Paarlberg notes that it calls for a phased liberalization of world agricultural trade over 6 years. Export subsidy expenditures are to be reduced 36 percent from a 1986-90 base. And the volume of subsidized exports is to be cut 21 percent. Existing import barriers will be converted to tariff equivalents which are then cut 36 percent using an 1986-88 base. That includes U.S. import quotas on sugar, peanuts and dairy products. Some minimum import shares are established.

GATT considers domestic farm subsidies for the first time. They fall 20 percent from their 1986-88 level with decoupled payments and production-limitation programs exempted. Given the changes in U.S. farm policy over recent years, the United States meets most of the required domestic-subsidy cuts.

The GATT will raise U.S. farm cash receipts by expanding some major markets and limiting competitors' use of export subsidies. Negotiations helped push farm-policy reform in several nations in a direction that benefits U.S. agriculture — Europe reforms and rice markets open up in Japan and Korea. A ratified GATT cuts the risk of these reforms reversing.

GATT would mean that the United States would have to make some policy changes despite existing compliance with most of the agreement.

The GATT draft brings the largest gains to corn, poultry, eggs and hogs. Soybean returns should be slightly higher. Those to cattle producers slightly lower.

Vegetables

There's a reason for the opportunities in the vegetable business. Thank those diet-conscious consumers. And congratulate growers — good positioning and an evolving product mix make this industry even more attractive ....
Glenn Sullivan, Purdue University

The vegetable business keeps rolling along on the strength of shifts in American eating habits. Sales of both fresh and processed vegetables keep expanding, albeit at different paces. Purdue's Glenn Sullivan says the overall outlook for vegetable producers and processors looks reasonably good. Thank those consumers.

Fresh markets.

The fresh vegetable industry continues to provide excellent growth for producers who are willing to diversify and commit to meeting the marketing services demands of domestic consumers and exporters. Retail sales of fresh vegetables reached $37 billion in 1993. Food service, exports and other sales added another $25.7 billion. Forecasts for 1994 indicate another 3.5 percent increase to $64.9 billion. Recent independent studies predict that total sales could reach $75 billion by 1998. These strong growth trends continue to be driven by the diet upgrading of health conscious consumers domestically, and rising foreign income bringing higher quality expectations.

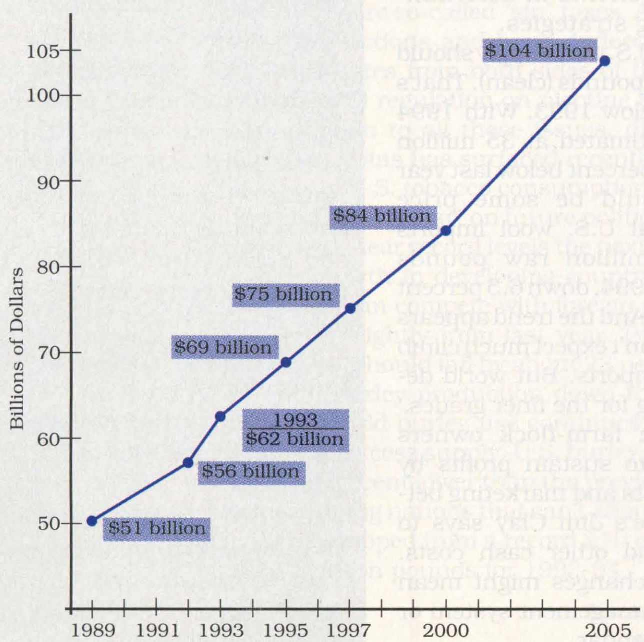
Processing vegetables.

On the processing vegetable side, production continues to expand, but on a more selective basis. Total production for the nine major processing vegetable crops increased only 1 percent in 1993, reaching 14.4 million tons. Forecasts for 1994 indicated that production in the four major Midwestern processing vegetable crops — tomatoes, sweet corn, snap beans, and green peas — will increase 24 percent over 1993.

Most of these trends should continue through 1995. The factors driving consumption of fresh vegetables seem particularly unlikely to change. Increased demand for a diverse product mix presents some additional opportunities for talented growers.

Eastern Corn Belt producers should carefully evaluate opportunities for diversification and/or expansion in the vegetable industry. Fresh vegetables represent the greatest opportunity, but require a serious commitment — you must develop fully integrated programs to maintain supplies and market the product. Vegetables that are grown without regard to retail demands for quality, timeliness, consistency, packaging, and supply consolidation will likely end up on the terminal wholesale markets at prices below the cost of production. Producers who make the effort to carefully plan their vegetable production will find continuing opportunities for growth and profits, particularly in the fresh vegetable sector.

U.S. fresh-market vegetable growth.



1993 Value of Processing Vegetables.

	millions
Illinois	$ 34.62
Indiana	16.27
Ohio	29.32
U.S. total	$1,156.00

1993 Value of Fresh Vegetables.

	millions
Illinois	$ 8.58
Indiana	29.99
Ohio	71.96
U.S. total	$6,710.97

Dairy

On the cow side.

Ohio State's Cam Thraen says cow numbers have taken a distinctly regional flavor. Milk cow numbers in the Upper Midwest declined sharply — down 3.5 percent in Minnesota and 2 percent in Wisconsin. California was the only one of the top five milk states to increase cow numbers over last year, up 1.1 percent. Milk yields have generally recovered and are now 1.4 percent above a year ago. Combine those changing cow numbers and yields to find 1994 milk production slightly ahead of 1993.

Milk Prices used to be driven by the support price and the Minnesota-Wisconsin milk price series. No more. The game today is the cheese market. The support price is truly a safety net and the MW is being modified; maybe replaced. Today's players recognize that milk is an input in the broad manufacturing markets and these markets are now wagging the cow's tail.

Milk prices — the Minnesota-Wisconsin, the All Milk Wholesale price, or the Wholesale cheese price — are all headed up gradually. And the gap between the federal price support "net" and market prices is growing. But this doesn't necessarily mean dairy producers are headed for better times. While milk prices are generally headed up, so are other important prices — particularly dairy feed. As the gap between milk price and support price widens, the pounds of 16-percent dairy feed ration that can be purchased with one pound of milk declines. Dairy producers will continue to feel the price-cost squeeze. And most research reports indicate this squeeze is definitely size related: The smaller you are, the tighter the squeeze. Hopefully, banner yields of most feed grains this fall will ease the tightness a little going into 1995.

Policy points.

While most agricultural organizations support the GATT. The holdout is the National Milk Producers Federation.

It's too early to call the 1995 farm bill, but you can bet that any dairy provisions will have to be "GATT legal." That means two-tier pricing — one price for domestic and one for export — will be gone along with other similar self-help provisions.

Say "cheese." Manufacturing drives the milk market these days. Fluid milk is competing less and less with pop and bottled water. And it all shows at the farm level .... *Cameron Thraen, Ohio State University*

In the dairy case.

1994 was a year for some concern. The cheese business — darling of the industry — lost some steam. Sales declined in the first half of 1994 led by American cheese. Italian cheeses were up about 0.3 percent. Fluid milk sales were down again in 1994, losing more ground to other beverages.

The average American drank 1.2 gallons of soft drinks for each gallon of fluid milk in 1975. In 1993 it was 2.5 gallons of pop to each gallon. Now, fluid milk is also losing out to bottled water: 18 gallons of milk to each 1 gallon of bottled water in 1975; an estimated 1.8 gallons of milk for each gallon of bottled water in 1993.

Low-fat milk products gained on whole milk, but the entire group still lost ground. Butter was actually a retail bright spot, most likely driven by lower prices and consumer concerns over the latest reports on saturated fats (stuff margarine is made of).

The prospects for 1995? We don't know how consumers will react to more explicit food labels — maybe not well for high-fat foods. Look for a mild expansion in the general economy, moderated by growing uncertainty over ever-rising interest rates. This will translate to moderately more real income to spend on food in 1995. Expect 0.6 to 0.8 percent growth in all dairy products' sales. Call cheese 1 to 2 percent above 1994. Concern about the effects of further butter-price declines and increases in the non-fat solids price could spell more trouble for cheese makers. Lower butter prices make natural low-fat cheese less competitive and make all cheese processing more costly by increasing the price of non-fat solids used for fortification. A soft retail market could make this tough for one of the industry's top performers. A bright spot: continued 2 to 3 percent real growth in the food-service sector.

Labor Management

As the number of farm workers continues to decline in the Eastern Corn Belt and throughout the United States, management issues are increasingly important. Wages for farm employees aren't expected to do much more than follow inflation. So Bernie Erven, agricultural labor expert at Ohio State, says "on-farm issues" will be more important than any expected changes in rules affecting farm employment.

Management of human resources on the farm continues to directly impact on the productivity and profitability of the business. Management issues play a major role in the job satisfaction and frustration level of farm managers and workers, particularly in a tight economy.

Erven encourages farm managers to key on the following in 1995: planning how you'll relate to employees, recruiting and selecting employees, orientation and training, employee motivation, compensation and performance evaluation. Communication skills are critical to success.

Managers should apply labor management practices that work for non-farm businesses. Adopt written job descriptions. Have organized interviews with job applicants. Offer formal training programs. Hold regular and open meetings with employees. Show appreciation for jobs well done. And develop plans to help employees reach career goals.

Beef Cattle

The beef industry really isn't much fun right now — if you're selling. Production keeps going up. Per-capita consumption's bottomed out. But there are opportunities for improved management .... *David Miller, Ohio State University*

1994 was either a bad year for the beef industry or a reality check. Looking ahead, "reality check" is probably more accurate. Dave Miller of Ohio State says beef producers shouldn't expect the prices and profits of the past few years to come back any time soon.

Inventory and production.

Inventory kept rising in 1994. Expect the same in 1995. Total cattle and calves reached 112.5 million head as of July 1, a 1.7 percent increase from 110.6 million a year earlier. The beef-cow inventory was up 2.5 percent. At 36.3 million head, cow numbers are their highest since 1986. Total numbers have increased 8 percent since 1989 when the expansion first began, with most of the increase since 1993. And replacement heifer numbers are also up — that should mean 1 to 2 percent more cows Jan. 1.

With increased cow numbers, the 1994 calf crop should be up 2.4 percent over 1993. The total feeder cattle available to feedlots was also up 1.7 percent on July 1. A disastrous price drop in early 1994 and the resulting reduction in cattle placed on feed during the late spring and summer months means either a large increase in placements late in 1994 or a larger number of nonfed cattle in the slaughter mix for 1995. The Oct. 1 cattle-on-feed report showed a decline of 5 percent from the year earlier — expected because of cattle-feeding losses. And current inventory suggests no shortage of cattle in the near-term — prices won't move much beyond the $70 mark for the fourth quarter of 1994 or into the first quarter of 1995.

The weight of the cattle coming to market is also important. During the first half of 1994, total beef supplies increased 6.7 percent with the number of head increasing 2.4 percent. The rest of the increase was due to carcass weights averaging a record 704 pounds. Summer averages of 720 pounds reported by the Livestock Marketing Information Center of Denver should boost total third-quarter beef production 3 percent above year-earlier levels. And that trend toward heavier carcasses will continue to add to total beef supplies.

Beef production is expected to be up 2 percent in 1995 and overall meat supplies should hit records. This will limit any increase in the price of finished cattle until we eat our way out of the large supplies of beef. Per-capita consumption of beef reached a low of 65.1 pounds (retail weight) in 1993, is estimated to be 66.7 pounds in 1994, and will remain steady at 66.7 pounds for 1995.

Prices.

What's this all do to beef prices for 1995? They will be more stable than in 1994 even if levels are below the last few years. Current expectations are that prices for fed cattle in 1995 will average around $70 with monthly averages ranging from $65 to $75. Looking at the historical trends, highs will most likely occur during March, April or May. Lows will likely be early in the year and during the summer and early fall. Despite the trends, cattle feeders with an opportunity to lock in profits by forward pricing cattle to be sold in late 1994 or 1995 should jump at the chance. Current conditions make the downside price risk greater than the upside potential.

Cow-Calf situation.

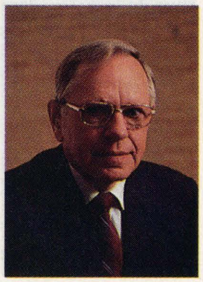
Cow-calf operators are looking at several years of reduced profits or losses. But with positive returns the last three or four years, their finances should be able to hold out. Expect a few feeder calf producers to exit. More calves, reduced demand from feedlots and uncertain finished-cattle prices put feeder calves $10 less per hundredweight in the Eastern Corn Belt this fall than in 1993. Call 400- to 600-pound steers in the high $70's to low $80's; heifers $10 to $11 less. Prices for the remainder of 1994 and 1995 should follow these trends. The market is down, so expect calves to be under-valued. There may be chances to buy low and take advantage of cheap feed prices.

Cow-calf operators should explore production alternatives such as extended grazing, the use of crop residues and alternative forages to reduce the amount of harvested forages needed and cut herd feed costs. Examine marketing alternatives such as forward pricing, retained ownership of calves, selling directly to feedlots, or selling through sales where high quality calves are identified to bring possible price premiums. Cost reduction has the greatest potential for profit, but increasing revenues through specialized marketing is only limited by imagination.

With the momentum expansion has, lower prices and increased supplies will be a fact of business through 1996 and possibly into 1997. Then the situation depends on how beef producers react. The more quickly producers start to reduce numbers, the sooner supplies will decrease and prices will start to increase.

Poultry and Eggs

> The poultry business keeps on rolling. Demand is strong all over. So is production. But what will the huge supply of red meats will do to prices in the long run?.... *Lee Schrader, Purdue University*



1994 wasn't a bad year for poultry — unless you were selling eggs. Lee Schrader of Purdue says to expect slightly lower prices for turkeys and broilers in 1995.

Egg prices were well below full production costs in 1994. However, producers should respond with adjustments that bring back profit in 1995. Broilers enjoyed their highest prices since 1990 despite production up nearly 7 percent. But even though chicken demand keeps growing, further production expansion in 1995 and larger red-meat supplies may trim prices somewhat. On the turkey side, production increased more than 3 percent in 1994. That was less than the increase in demand — prices up 4 percent. Even more production in 1995 means slightly lower prices.

Now, more details:

Eggs.

Table egg production increased about 2.6 percent during 1994 thanks to the profitability of 1993. But lower prices combined with higher feed costs reduced the hatch of layer replacements and set the stage for higher prices in 1995. The hatch also indicates production plans and potential — the high was reached in May 1994 and will be down 4.4 percent from that by year end. Prices in 1995 will need to encourage production rather than discourage it as has been the case in 1994.

Demand for eggs — particularly for export — has been strong with prices down less than might have been expected from watching production. Use of eggs as egg products continues to increase relative to shell eggs, primarily in the food service industry. Use of eggs for egg products increased nearly 11 percent from a year earlier through Oct. 8, 1994. Some of the increase in production of egg products represents stock accumulation, but most has moved into use or export.

It appears that the low of the price cycle may be shorter than usual. Call 1995 prices 5 to 8 cents higher per dozen than the past year. Production goes up less than 0.5 percent.

Chicken.

Production increased nearly 7 percent in 1994. Prices averaged about 2.5 percent higher than a year earlier, despite higher red-meat supplies and lower beef and pork prices. Chicken demand keeps increasing and the product mix keeps evolving. Rotisserie chicken is the "food of the year" pick by *Restaurant & Institutions* magazine. Obviously this growth rate can't continue forever, but there are no signs of change in view.

1994 exports are up an estimated 37 percent to about 11 percent of 1994 production. Bargain-priced leg quarters are a major export item with former Soviet Union countries back in the market.

Broiler companies are expanding actively and moving toward the Midwest. Hudson Foods has announced a complex in Kentucky, Seaboard is looking at Indiana sites, and it is likely that at least a part of Tyson's expansion will be in the North Central states.

Production should increase 5 percent or more in 1995. But breeders can accommodate greater expansion. Prices should average slightly lower in 1995 as red meat supplies increase.

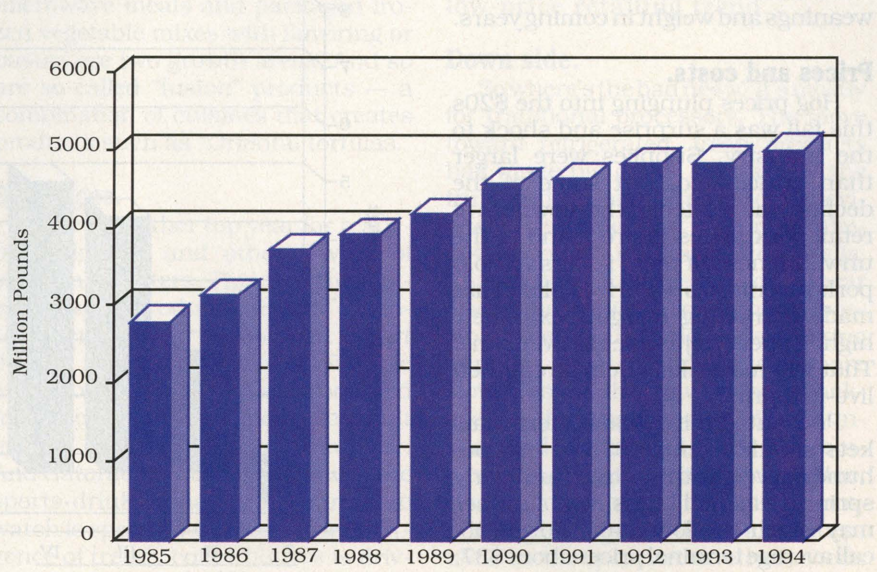
Turkey.

Turkey production went up about 3.3 percent during 1994. Demand increased at a somewhat faster pace and prices went about 4 percent higher. Exports in 1994 exceeded last year by 32 percent with Mexico a major buyer. Exports represented nearly 9 percent of 1994 production.

Turkey use in the last quarter exceeds the quarter's production. Stocks, at 496 million pounds on Oct. 1, will have to cover that. That stock level is 75 million less than a year ago.

1995 turkey prices should be somewhat lower than last year. 1994 prices encouraged expanded production and the large supply of other meats will temper demand for turkey.

Turkey production.



Swine Industry

Record production, rotten prices, and there's still some profit. If you work at it. The hog industry is in the process of remaking itself and its product. The proof is in the pork ....
Chris Hurt, Purdue University

Pork supplies will reach record highs in 1995 with per-capita availability its highest since 1980's previous record. The amount of pork available for each person will reach near 55 pounds, up over 4 percent from 1994.

The jump in production is due to larger breeding herds, primarily in North Carolina and Missouri where mega-farms have been expanding rapidly. These two states accounted for 85 percent of the increased number of breeding herd animals reported to USDA in September. The breeding herd has been stable in the Eastern Corn Belt states of Illinois, Indiana, Michigan and Ohio.

Two other factors continue to contribute to huge pork supplies. Producers set new records for pigs-weaned-per-litter — approaching 8.2 for 1994 and up from about 7.88 pigs in 1990. And weights continue to move higher, about 2.4 percent higher in 1994 than in 1990. These factors will create about 6.5 percent more pork than in 1990 with the same number of farrowings. And the upward trend should continue for both weanings and weight in coming years.

Prices and costs.

Hog prices plunging into the $20s this fall was a surprise and shock to the industry. Supplies were larger than anticipated, but some of the decline was related to the slowness of retail pork prices to drop, and to the unwillingness of meat sellers to hold pork inventories as prices slid. That made marketing margins extremely high. Expect adjustments over time. That will most likely help strengthen live-hog prices.

Prices at terminal Midwestern markets should average $35 to $38 per hundredweight this winter and early spring. Seasonal highs next summer may reach the low $40s. For 1995, call average terminal prices about $37, down from near $41 in 1994.

The good news is that low corn and soybean-meal prices have reduced current production costs to the $37 to $39 per hundredweight range for average-cost producers. Still, depressed hog prices mean that most of the industry has been operating at a loss. And we can expect more of the same for much of 1995. Seasonal increases in feed prices likely put 1995 production costs near $39 or $40.

Expect liquidation of the breeding herd to start this winter. However, the herd size may not fall below year-previous levels until the spring of 1995. That means hog supplies won't drop below year-previous amounts until the fall of 1995. Thus, there isn't much hope for consistent profits returning until late 1995 or early 1996. If sow sell-offs follow historical patterns, hog prices and profits should be very favorable by mid-1996.

What to do.

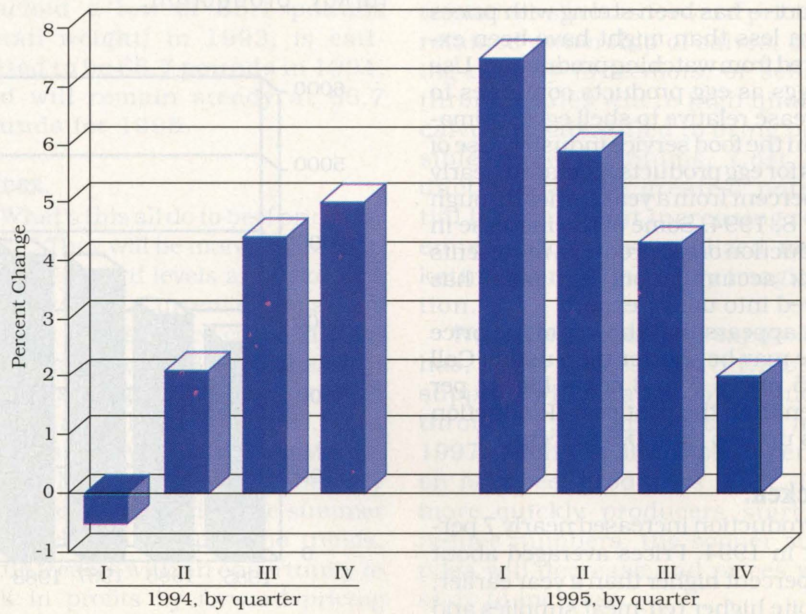
With the poor profit prospects for 1995, producers need to evaluate their current financial position and project the consequences for 1995. Watch cash flow closely. Many producers will delay capital expenditures, work on cost containment, reduce family living expenses, and continue improving production efficiency. Some won't make it. Those operations most likely to bow out have some of the following characteristics: high costs, poor production efficiencies, high debt. They may also count on hired labor or have to rely on the hog operation for family living expenses.

Good news.

Perhaps the good news for the industry is that 1995 will be a year to merchandize pork. The pork industry can tell its story: Pork is not only nutritious and tasty, it is also lower in fat and a more consistent product. And it will be lower priced in 1995. Retail pork prices should drop 5 percent in 1995 to $1.90 per retail pound.

Exports will also be strong in 1995 with the U.S. dollar weak, and U.S. pork prices will be low. These factors will enhance the ability to sell pork in foreign markets with pork exports expected to increase by 8 percent.

Pork supply changes (percentage of previous-year).



Food Products

Changing demographics and demands on consumers' time continue to effect the processed food industry. Denny Henderson retired from Ohio State and now tracks these trends at the USDA Economic Research Service. He says demand for staples won't change much in 1995. But how those staples are processed may, especially when convenience is concerned. Total sales of processed goods won't grow much. And the big gainers will continue to be products associated with "healthy eating."

The value of processed food sales will grow only 2 to 3 percent. That's due in part to generally low inflation and new pricing schemes. Processors are competing more on low prices rather than marketing gimmicks such as "buy one, get one free." And there's more competition for lowest prices in the grocery sector as wholesale clubs and mass sellers such as WalMart take a larger part of the market share.

Products aimed at the "healthy" market will be the biggest gainers in 1995. There are increasing numbers of low-fat, no-fat and low-cholesterol products on the market. Cookies and other baked goods are popular, as are prepared doughs for in-store baking or retail sales. Expect continued growth in healthy soups and new soup products — individual, microwavable servings.

The USDA food pyramid and dietary guidelines will promote sales of products that are in its high-volume areas. There will be new opportunities for producers and processors to provide fruits and vegetables in new ways. Products like "salad-in-a-bag" and fresh, mixed fruits will continue growth. This follows the consumer demand for healthy meals in convenient ways. There should be opportunities for entrepreneurs and innovators who want to provide fresh-like quality in processed form.

Snacks.

But even with big sales of the "good-for-you" stuff, snacks and prepared beverages should have another excellent year. Growth continues for healthier snacks such as pretzels, baked tortilla chips and rice cakes. Expect new flavors. It's a trend that won't stop as Americans follow their "grazing" eating habits.

Look at which restaurants are doing best. Then package it for home use. Convenience still rules. So does freshness. But we want it at home. And you'd better make it easy. That sums up processed food trends .... *Dennis Henderson, USDA–ERS, Ohio State University*

Ethnic foods.

Continued expansion of ethnic foods is to be expected. The shifting population of the United States and demand from emerging foreign economies for wider variety of foods is driving this. U.S. demand in this area is driven in part by increasing Oriental and Hispanic populations. This group does demand more prepared foods aimed at their traditional tastes. However, the greater demand may actually come from other ethnic groups exposed to the more diverse population and experimenting with new cuisine. Mexican and Chinese foods appear most popular in this shift. And increasing number of products in this area are being recognized for their improved authenticity.

It should also be noted that a general belief in the health benefits of eating habits of some ethnic groups still drives part of this expansion. More importantly, processors have found new ways to reduce the preparation time of these products. Ethnic microwave meals and packaged frozen vegetable mixes with flavoring or pastas are two growth areas. And so are so-called "fusion" products — a combination of cuisines that creates products such as "Oriental tortillas."

Beverages.

Expect another top year for ready-to-drink teas and other flavors of sweetened waters. This was the fastest growing product category of groceries in 1994, up 160 percent in part due to the proliferation of Snapple knock-offs. Bottled, noncarbonated fruit juice beverages aimed at an adult market are also increasing rapidly. And Gatorade is no longer alone in the sports-drink arena. Another trend to watch is specialty coffees — the emergence of trendy coffee houses is driving that growth.

Staples.

It's important to remember that 44 percent of the consumer food dollar still goes to the staples: meat, produce and dairy products. And that won't change much in 1995. What is changing is the increasing demand for processed products in these areas. Prepared poultry for deli and fast-food chicken outlets will expand pretty rapidly. As will those prepackaged fruits and vegetables mentioned earlier.

Expect more pork product growth in response to lower prices and cost cutting in production and handling. Meat gravies and sauces should also do well as consumers go after "home-cooked" flavors. And baby food manufacturers will extend their lines into toddler foods. Infant formula prices may go down as a result of antitrust settlements with manufacturers and improve sales. Traditional cold breakfast cereals should do well with the low-price retailing trend.

Down side.

So where's the bad news? It's mostly for traditional processors. The move toward refrigerated, fresh products has made big gains, boosted by the fruit and vegetable products previously mentioned. So have new take-out options such as in-store delis. That makes all canned goods appear less popular with consumers (possible exception: ethnic foods). Baking supplies and condiment sales are slowed as the shift toward more packaged and store-baked goods continues. And, despite all those TV commercials, table spreads (margarine, etc.) and syrups are declining in importance — again, there are exceptions in the gourmet or ethnic foods areas.